

Message Text

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SUBJ: NORWAY'S 1977 BUDGET

SUMMARY: NORWAY'S EXPANSIONARY 1977 BUDGET IS DESIGNED TO SET THE STAGE FOR THE LABOR PARTY RE-ELECTION CAMPAIGN NEXT YEAR. MIDDLE AND LOWER INCOM GROUPS ARE MAJOR BENEFICIARIES. TAXES ON COMPANIES WILL RISE. GNP IS TO GROW 8 PERCENT COMPARED TO 6 PER CENT THIS YEAR, BUT INFLATION--OSTENSIBLY ONE OF THE MAIN TARGETS OF THE BUDGET-- IS TO BE REDUCED ONLY 0.7 PERCENT TO 8.5 PERCENT. MONETARY POLICY WILL BE THE MAJOR WEAPON USED. FOREIGN DEBT WILL GROW 25 PERCENT TO ONE-THIRD OF GNP, AND NORWAY'S BALANCE OF PAYMENT IS NOT NOW EXPECTED TO BE IN SURPLUS BEFORE 1980 BECAUSE OF DELAYS IN OIL PRODUCTION. ALTHOUGH NO NEW PROGRAMS ARE PLANNED, GOVERNMENT EXPENDITURE WILL GROW 20 PERCENT, CREATING AN ALL TIME DEFICIT. WHILE MILITARY EXPENDITURE WILL GROW 3.7 PERCENT IN REAL TERMS, IT IS ONCE AGAIN PROJECTED TOLAG BEHIND GROWTH IN TOTAL EXPENDITURE THROUGH 1980. ALTHOUGH BILLED AS LESS EXPANSIONARY THAN THIS YEAR'S BUDGET, THE BUDGET IS CLEARLY PARTISAN WITH MORE PROMISE IN THE NATIONAL INCOME SETTLEMENT IN THE SPRING. END

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SUMMARY.

1. THE NORWEGIAN BUDGET FOR 1977 PRESENTED BY FINANCE MINISTER KLEPPE ON OCTOBER 6 IS EXPANSIONARY BUT, KLEPPE CLAIMS, LESS SO THAN THE 1976 BUDGET. THE PRINCIPAL OBJECTIVES OF THE 1977 BUDGET ARE THE SAME AS FOR 1976: MAINTAINING EMPLOYMENT AND REDUCING INFLATION. IN 1977, HOWEVER, INTERNATIONAL ECONOMIC RECOVERY AND INCREASED FOREIGN DEMAND WILL REDUCE NEED FOR DOMESTIC STIMULATION, KLEPPE SAID. ALTHOUGH THE BUDGET PROVIDES FOR A 24.3 PERCENT INCREASE IN EXPENDITURE COMPARED TO 18.4 PERCENT IN 1976, DOMESTIC DEMAND AND INFLATION ARE TO BE KEPT IN CHECK BY TIGHT CREDIT. A MODEST INCREASE OF 9 PERCENT IN AVERAGE AND 2.5 PERCENT IN REAL DISPOSABLE INCOME (12 PERCENT AND 3 PERCENT IN 1976) IS PROPOSED FOR 1977 FOR THE NATIONAL INCOMES SETTLEMENT NEXT SPRING. NO MAJOR NEW PROGRAMS ARE INTRODUCED, AND HALF OF THE INCREASED EXPENDITURES RESULTS FROM DECISIONS ALREADY TAKEN.

2. IN THE ECONOMIC FORECAST FOR 1977 PRESENTED WITH THE BUDGET, KLEPPE PREDICTED A 12 PER CENT GROWTH IN EXPORTS IN 1977 TO 88.5 BILLION KRONER (5.5 KRONER -\$1.00) AND A 4 PERCENT INCREASE IN IMPORTS TO 94.3 BILLION KRONER; 7 PERCENT GROWTH IN INVESTMENT (UNCHANGED FROM 1976); 8 PERCENT GROWTH IN GNP (5.9 IN 1976) TO 196.6 BILLION KRONER; 4.5 PERCENT GROWTH IN GNP LESS OIL AND SHIPPING (4.7 PERCENT IN 1976) 8.5 PERCENT GROWTH IN CONSUMER PRICES (9.2 PERCENT IN 1976); AND A 13.2 BILLION KRONER BALANCE OF PAYMENT DEFICIT (18.3 BILLION IN 1976), THE SAME AS IN 1975. AT THE END OF 1977 NORWEGIAN FOREIGN DEBT IS EXPECTED TO GROW TO 65 BILLION KRONER (20 BILLION KRONER IN 1974), INCLUDING OIL COMPANY DEBT OF 33 BILLION KRONER, SHIPOWNER DEBT OF 23 BILLION KRONER, AND NINE BILLION KROMENT FOR ALL OTHER SECTORS. BECAUSE ESTIMATED OIL PRODUCTION WILL GROW MORE SLOWLY THAN PREVIOUSLY EXPECTED AND WILL PROBABLY AMOUNT TO ONLY 60 MILLION TONS IN 1980 INSTEAD OF THE 75 TO 80 MILLION TONS, A SURPLUS ON NORWAY'S BALANCE OF PAYMENT IS NOT NOW EXPECTED BEFORE 1980 INSTEAD OF 1978 OR 1979 AS PREVIOUSLY FORECAST.

3. GOVERNMENT EXPENDITURES FOR 1977 (62.8 BILLION KRONER) WILL RISE FAR FASTER THAN INCOME (46.4 BILLION KRONER), LEAVING AN ALL TIME RECORD 16.4 BILLION KRONER DEFICIT (9.1 BILLION KRONER IN 1976) TO BE FINANCED BY BORROWING OR USE OF TREASURY CASH RESERVES. LIMITED OFFICIAL USE

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INCREASED TAXES ON BEVERAGES, MOTOR FUELS, PUBLIC SERVICE, ETC. WILL HELP OFFSET DECREASED IN INCOME TAXES ON LOWER AND MIDDLE INCOME, AND INCREASED RETIREMENT BENEFITS WILL BE LARGELY FINANCED BY RAISING THE CONTRIBUTIONS OF EMPLOYERS TO SOCIAL SECURITY FUNDS. FOREIGN AID WILL RISE 27 PERCENT TO 0.83 PERCENT OF GNP (1 PERCENT IS TARGETED IN 1978).

4. MILITARY EXPENDITURE WILL GROW 3.7 PERCENT -3.25 PERCENT IF COAST

GUARD EXPENSES OF 653 MILLION KRONER OMITTED--TO 5.5 BILLION KRONER OR 8.8 PERCENT OF EXPENDITURE AND WILL ONCE AGAIN LAG BEHIND THE GROWTH IN TOTAL EXPENDITURE. THE INCREASE IN 1976 WAS 2.3 PERCENT WHEN MILITARY SPENDING WAS EQUAL TO 9.7 PERCENT OF EXPENDITURE. THE BIGGEST INCREASE IS IN MATERIAL PURCHASES, ESPECIALLY THE F-16 THE LONG-TERM BUDGET FOR 1978-80 PROVIDES FOR AN ANNUAL REAL INCREASE IN MILITARY SPENDING OF 2.6 PERCENT COMPARED TO 4.4 PERCENT FOR THE BUDGET AS A WHOLE.

5. FURTHER TAX CUTS ARE PROMISED AS THE GOVERNMENT'S CONTRIBUTIONS TO THE NATIONAL INCOMES SETTLEMENT NEXT SPRING, PROVIDED THE SETTLEMENT IS MODERATE. SINCE THIS AMOUNTS TO TWO BUDGETS A YEAR, THE GOVERNMENT WILL SEE ABOUT LIMITING THE SPRING SETTLEMENT TO THE BALANCE OF 1977 SO THAT NEGOTIATIONS WILL BE HELD AGAIN NEXT FALL. THESE NEGOTIATIONS (AND FUTURE NEGOTIATIONS) WILL THEN COINCIDE WITH CONSIDERATION OF THE BUDGET AND ALSO COVER THE CALENDAR YEAR. THIS SPRING THE GOVERNMENT PROPOSES THE MOST OF THE 2.5PERCENT INCREASE IN AVERAGE REAL INCOME IT HAS TARGETED SHOULD GO TO THE LOWER INCOME GROUPS AND THAT UPPER INCOME GROUPS SHOULD GET LITTLE OR NO INCREASE.

6. COMMENT: INITIAL REACTION FROM OPPOSITION PARTIES, EXCEPT THE FAR LEFT, IS THAT THE BUDGET IS FAR TOO EXPANSIONARY AND INFLATIONARY.

IT IS QUESTIONABLE WHETHER THE GOVERNMENT CAN HOLD PRICE INCREASES TO 8.5 PERCENT AND EVEN THAT LEVEL IS LIKELY FURTHER TO REDUCE THE COMPETITIVENESS OF MANY NORWEGIAN EXPORTS. THE SPRING WAGE SETTLEMENT WITH ELECTIONS IN THE FALL IS LIKELY TO BRING MORE OF THE SAME. THERE IS ALSO INCREASING CONCERN WITH THE GROWTH OF DEBT, ALTHOUGH THE DELAY IN OIL PRODUCTION SHOULD FACILITATE APPROVAL OF GOVERNMENT LIMITED OFFICIAL USE

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PLANS TO ALLOCATE NEW CONCESSIONS.

7. THE BUDGET, ALTHOUGH IT CONTAINS NO NEW PROGRAMS, IS CLEARLY AIMED AT LOWER AND MIDDLE INCOME VOTERS, FROM WHICH THE LABOR PARTY DRAWS MUCH OF ITS SUPPORT, AND AT THE GENERAL ELECTIONS NEXT FALL. IT IS LIKELY, THEREFORE, TO STIR CONTROVERSY. SIMILARLY THE TIGHT CREDIT POLICY WILL FALL MOST HEAVILY ON COMPANIES (SPECIAL HELP IS PROMISED FOR INDUSTRIES, SUCH AS SHIPBUILDING AND TEXTILES, PARTICULARLY EXPOSED TO FOREIGN COMPETITION), AND THE INCREASE IN COMPANY TAXATION THROUGH THE RISE IN EMPLOYERS' SOCIAL SECURITY CONTRIBUTIONS HAS ALREADY PROVED AMONG THE MOST CONTROVERSIAL PROPOSALS IN THE BUDGET. ANDERS

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